Always start with the end in mind

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Thinking about your end goals

- When modeling, the hardest thing is to get started and to build the right structure
- In order to make this easier, you need to always keep the end in mind, which means figuring out what series of turns you have to take to get to a specific destination
- How is your model going to answer fundamental questions about your business?
- Anytime you put something into your model, you should be doing it to answer a question
- It's a lot easier to figure out what information you need when you have the questions in mind
- Why are you making this model?
- List out all the questions you need to answer, order them by priority, and then build your model based on this list

See you next lecture!

Clear over clever

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How a clear model looks

- What makes a model clear:

  - It's readable, with labels that are self-explanatory
  - The flow is logical and easy to follow
  - It's usable 12 months later
  - If you show it to anyone, they can figure out what you're doing and what your assumptions are

- It doesn't matter how you format the model, the point it to make it clear that you have different sections

- Separate the different calculations and logical steps

- Bigger and clearer is better than elegant but hard to use

See you next lecture!

Always do sanity checks

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How to spot your mistakes

- When building a model, there's a high chance that you will make some mistakes

  There are two main types of errors:

- **Logical error - you make an assumption that is not realistic**
- **Technical error - you put in the wrong formulas or link to the wrong cells**

- In order to spot logical errors, you have to do sanity checks

- Pause and ask yourself is what you assumed will happen is really possible, and adjust the numbers accordingly

- Sanity checks can be done before or after building the model

- In order to spot technical errors, you have to look at the numbers in your model and see if they are similar to what you would expect - if not, check the formulas you used to get to that result

- Do error checking of any intermediate and final results in your model

See you next lecture!

Start small & simple

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

The best way to start

- The best way to approach financial modeling is to start small and simple and then slowly add more complexity
- Don't tackle the complicated stuff until you've modeled out the easy stuff
- Start with one product, one location, one revenue model, or one channel for getting customers
- Doing it this way makes it easier to spot mistakes and fix them immediately

See you next lecture!

Define constraints

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Setting the limits of your model

- The most common mistake entrepreneurs do when trying to build a model is they try to add in too many things
- You have to set the limits of what your model needs to do
- If it's too broad, it gets more difficult to build
- Setting clear constraints can make your model building process more efficient
- In addition to deciding what your model needs to do, you also need to define what it does not need to do

See you next lecture!

Utilize Google

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Learning more from Google

- In this course we tried to focus on the common elements and themes that are important to the most people
- If you want to do something very specific, you will have to Google it
- Chances are good that someone else out there has had the same issue
- You might find partial or fully completed models that you can build on top of

See you next lecture!